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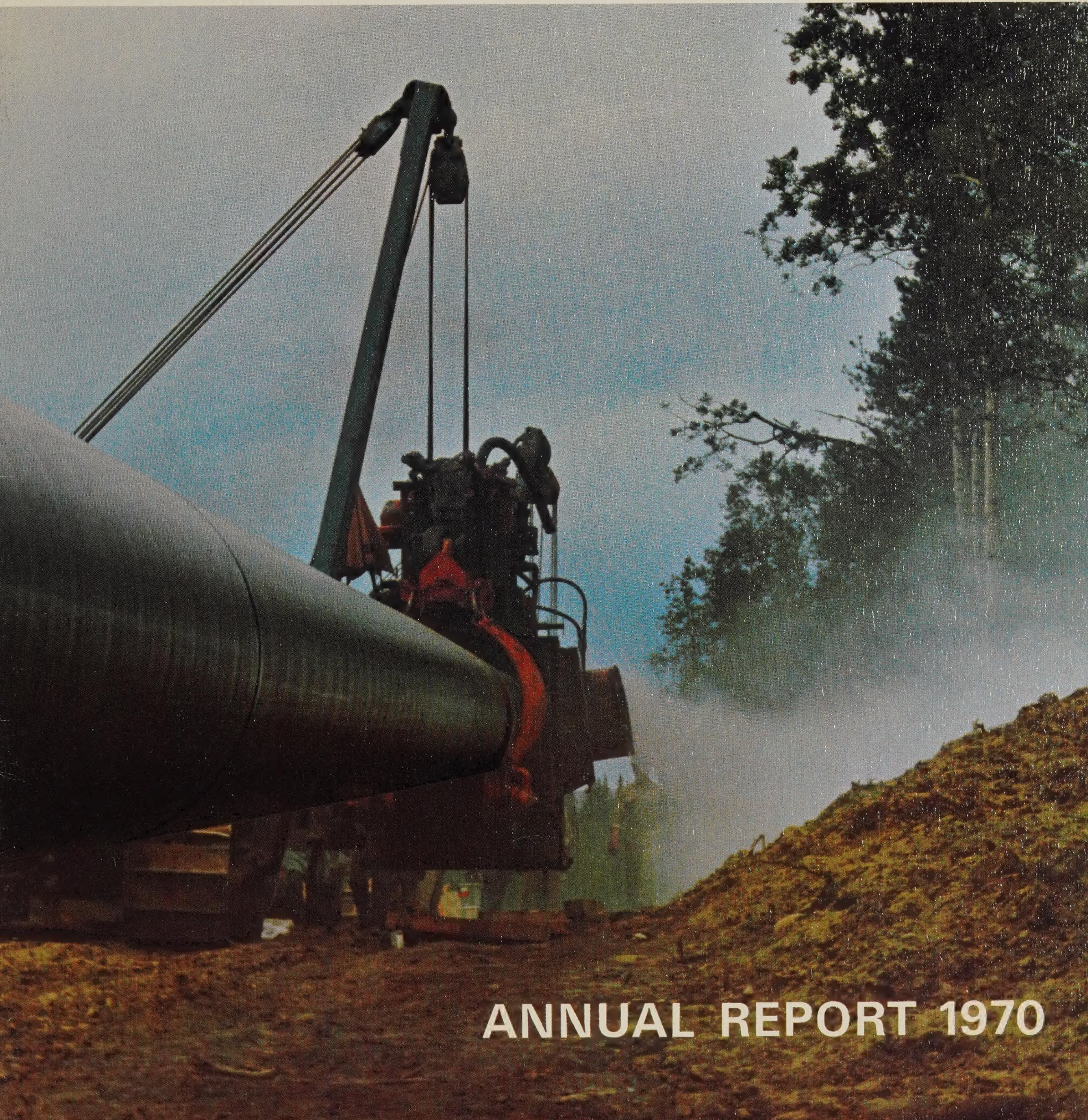
The
Alberta Gas Trunk Line
Company Limited



ANNUAL REPORT 1970

The
Alberta Gas Trunk Line
Company Limited

Head Office

505 Second Street S.W., Calgary, Alberta

Postal Address

P.O. Box 2535, Calgary 2, Alberta

Transfer Agents and Registrars

CLASS "A" COMMON SHARES
National Trust Company, Limited
Montreal, Toronto, Winnipeg, Calgary,
Edmonton and Vancouver

PREFERRED SHARES SERIES C and D
Crown Trust Company -
Montreal, Toronto, Winnipeg, Calgary
and Vancouver

Stock Exchange Listings

CLASS "A" COMMON SHARES
Calgary Stock Exchange
Toronto Stock Exchange
Montreal Stock Exchange

PREFERRED SHARES SERIES C and D
Calgary Stock Exchange
Toronto Stock Exchange

Auditors

Clarkson, Gordon & Co.

Solicitors

Howard, Moore, Dixon, Mackie & Forsyth

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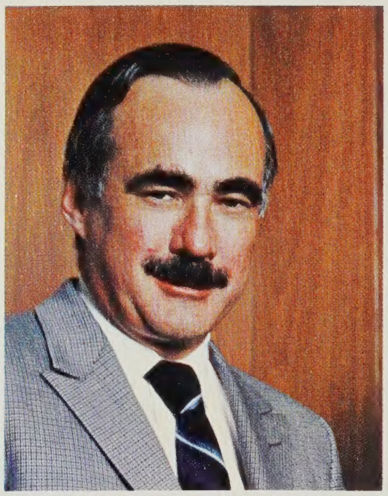
Highlights

	1970	1969	Increase (Decrease) Per Cent
FINANCIAL			
Operating revenues	$ 46,247,000	$ 31,930,000	44.8
Operating profit	$ 24,748,000	$ 17,004,000	45.5
Net income	$ 10,817,000	$ 9,820,000	10.2
Dividends on preferred shares	$ 2,143,000	$ 2,280,000	(6.0)
Net income applicable to common shares	$ 8,674,000	$ 7,540,000	15.0
Net income per common share			
On average shares outstanding	$ 2.60	$ 2.47	5.3
On fully diluted basis	$ 2.50	$ 2.39	4.6
Dividends paid per common share	$ 1.50	$ 1.50	
Average common shares outstanding	3,342,000	3,056,000	9.4
Additions to plant	$ 82,857,000	$ 68,251,000	21.4
Investment in plant (cost)	$404,052,000	$321,611,000	25.6
Investment in plant (net)	$348,433,000	$274,615,000	26.9
OPERATING			
Miles of pipeline in service	3,246	2,778	16.8
Compression BHP	280,555	186,630	50.3
Annual throughput (MMcf)	1,259,337	1,047,780	20.2
Maximum day throughput (MMcf)	4,337	3,650	18.8

Coating and wrapping 42" pipe west of Millarville

JOHN C. MAYNE
Chairman of the Board



S. ROBERT BLAIR
President and Chief Executive Officer

Report to Shareholders

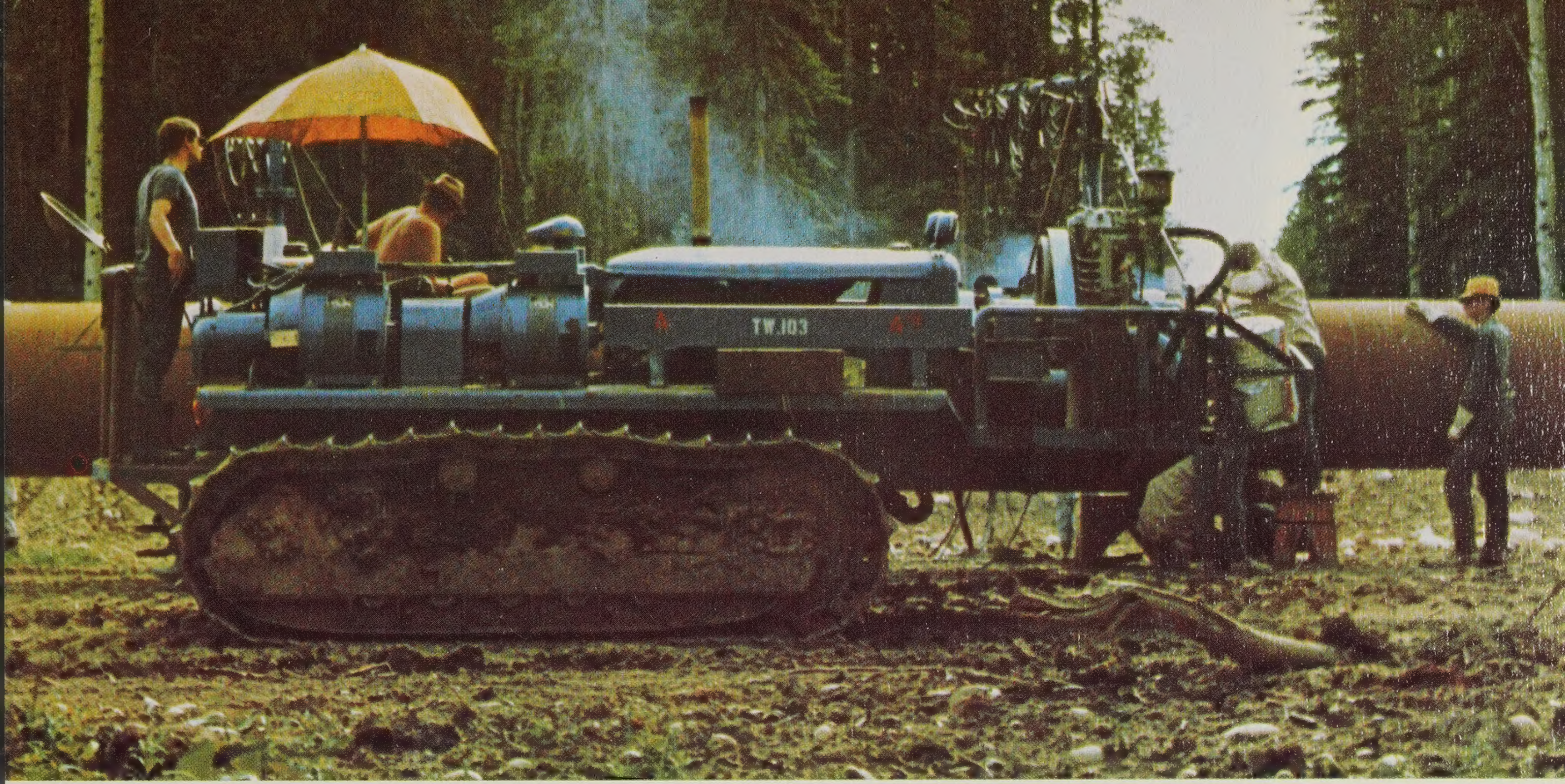
Alberta Service Expansions

The year 1970, like the year 1969, required the Company to respond to unusually fast growth in the demand for gas transportation services within Alberta. When 1970 was over, the Company could look back with satisfaction in recording the completion of the largest construction program in its history. The program amounted to $83 million and was performed on schedule and within budget, as was the $68 million program of 1969. The surging growth of these two years compares with an annual average of $15 million for the construction programs during the preceding seven years and required some corresponding unusual growth in the Company's over all services and organization and in its financings. It appears that this growth atmosphere will continue as the Canadian natural gas industry moves ahead in the early 1970's. The Company is prepared for this event.

In utility operations, a period of fast growth of service brings expectation for growth in future earnings, but when the service growth coincides with high costs of new capital the immediate effect is some suppression of earnings growth. In the Company's case, it ended 1970 with earnings per average share outstanding of $2.60, up 5% over 1969. This is discussed further under Service Rates. This growth of earnings compared with a 20% increase in gas throughput over the same year and a 26% increase in gas transmission plant.

Over the two year period of 1969 and 1970, earnings per average share have grown by 33% over the 1968 level, but gas throughput has grown by 44% and gas transmission plant has grown by 60%.

The faster growth of gas plant than gas throughput has been the result of two engineering circumstances. One is the greater average distance over which gas is transported and the other is that the Company's expansions of gas plant during 1970 have been characterized by large additions of compressor horsepower and by commencement of new looping programs. Both tend to require relatively large capital expenditures.



Laying large diameter pipe on a looping project

Future years will see the further growth of gas throughput benefiting directly from this 1970 build-up in transmission plant and should see a growth in earnings commensurate with the broader investment base which is being created by the current growth in plant and service.

A noteworthy aspect of the large 1970 construction program included the successful and economical installation of the first high pressure 42-inch diameter pipe in Canada. The increase in the Company's long term debt by $121 million made the Company one of the larger issuers of debt securities in Canada during the landmark year of high interest costs.

Service Rates

We should point out to the shareholders that of the 1970 earnings of $2.60 per share discussed above, 37 cents per share was the result of an increase to 8¾% in the rate of return which the Company includes in the charges under its transportation service contracts, but which increase is being contested within regulatory procedures. The increase was applied by the Company effective July 1, 1970 in view of the sharp increase which the Company was experiencing in its costs of obtaining additional funds for service expansions. However, following the filing of complaints against the increase, the Public Utilities Board of the Province of Alberta conducted public hearings and will vary or confirm the rate. While the Company feels strongly that the increase in the rate of return was as small as was reasonably possible, it is necessary to point out to the shareholders that the matter is still before the Public Utilities Board and that the Company and its principal customers have agreed that if the Board should vary the rate, revenue adjustments will be made with interest up to one year retroactively to the date of the increase.

Unit Cost Economies

In this period of huge demands for growth, of high costs of capital and of rapid and exciting development of major projects in the North American gas industry, the Company is particularly conscious of its performance in control of unit costs. The Company's record in this area may be described with pride, and a ten year review of some aspects of this performance is included in the Construction and Operations sections which follow this Report to Shareholders.

On this subject it is noteworthy that the 1970 increase in rate of return, while of significant help in maintaining earnings at slightly above those of 1969, caused an increase of less than 1/10¢ per Mcf in the Company's gas transport rates over all for the year.

Portable Pipe Mill

In July, 1970, the Company started into its first venture of investment in fields other than gas transmission services by joining with Dominion Foundries and Steel, Limited and others in the forming of a new company named International Portable Pipe Mills Ltd. This company has an experimental mill now being assembled and our Company believes that the prospects for future success of this venture are encouraging.

Gas Arctic Development

In the Annual Report for 1969, we expressed the Company's awareness of strengths of position which it could contribute to the future northward expansion of the gas pipeline industry. Engineering and economic studies begun by the Company's staff in late 1969 prompted the Company to commence sponsorship of a proposal to construct a large gas transport service artery to extend from the Prudhoe Bay area in the State of Alaska, across the Yukon and Northwest Territories and to connect with our existing systems near Grande Prairie. The Company believes that such a connecting pipeline, 1,550 miles long and having a capital cost estimated in the order of $1½ billion, could provide the most economical and earliest means of connecting future Alaska north slope gas production to a wide range of North American gas markets.

Following review with government and industry, the Company announced its proposal publicly in June 1970, and has continued to advance its efforts to cause this or a similar project to be carried out as soon as possible.

The proposal is being advanced at the time of this report under the name, Gas Arctic Project. The name is new, but the distinctive features of this proposal have remained constant, including the offering of transport service to all comers, the earliest completion possible following the commencement of oil production and predominant Canadian equity ownership of the Canadian portion. Development of the Gas Arctic Project to date and other Gas Arctic studies are reviewed briefly in a later section of this report.

Board and Management

There were changes in the composition of the Board of Directors during the year. At the annual meeting of Class "B" common shareholders held April 29, 1970, the following were elected Directors for the ensuing year: Mr. J. E. Maybin, representing utility companies; Mr. G. A. Leslie, representing gas export companies; Messrs. D. C. Jones, D. E. Mitchell and J. E. Baugh, representing producers of natural gas. Mr. A. T. Baker and Mr. J. C. Mayne continued as Directors appointed by the Lieutenant Governor in Council of the Province of Alberta. Mr. J. C. Mayne was re-elected Chairman of the Board and Mr. D. C. Jones and Mr. A. T. Baker were re-elected Vice-Presidents.

In August, Mr. D. C. Jones resigned for the reason of increase in his principal executive responsibility, after having served on the Board for 15 years, during which he had been an important source of strength to the Board and the Company. Mr. L. M. Rasmussen was appointed a Director to succeed Mr. Jones. In October, Mr. G. A. Leslie resigned after several years of diligent service on the Board and was succeeded by The Honourable E. C. Manning, P.C., C.C.

In August, Mr. J. C. Mahaffy, Q.C., retired as President and Chief Executive Officer, after 16 years of dedicated and competent service to the Company. His counsel is remembered with warm and respectful regard by his colleagues within the Board and Management of the Company.

The Company has the benefit of expert professional, technical and managerial talent, and it will be in the energetic application of those skills which the Company must trust for its future success.

J. C. Mayne

Chairman of the Board

J. R. Blair

President and Chief Executive Officer

Calgary, Alberta
March 12, 1971

Construction of 42" loop.

Construction

The year 1970 was a period of great expansion for the Company, as 468 miles of pipeline and 93,925 horsepower in compressor capacity were added to the system, also an important construction milestone was reached with the installation of the first 42-inch line pipe for service to the Canadian petroleum industry.

The expenditures consisted of $51 million for main line additions, $17 million for main line

compressor stations, $13 million for lateral pipelines and the necessary compression facilities, $2 million for measurement, quality control installations and other items.

The new facilities cost $83 million, bringing the Company's total plant investment to $404 million. At the end of 1970, the Company's system totalled 3,246 miles of main line and loop, and 280,555 compression horsepower.

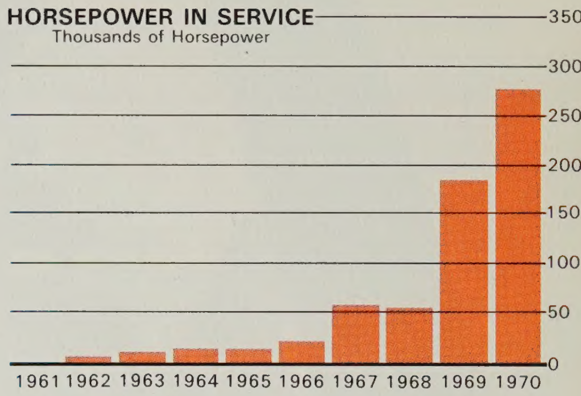
During the winter of 1969-1970, the Company laid 82 miles of 36-inch pipe. Welding, coating and other installation experience newly obtained by that construction, together with the successful hydrostatic testing of the line in weather ranging to 20 degrees below zero are being applied to the engineering design of the proposed Alaska connection.

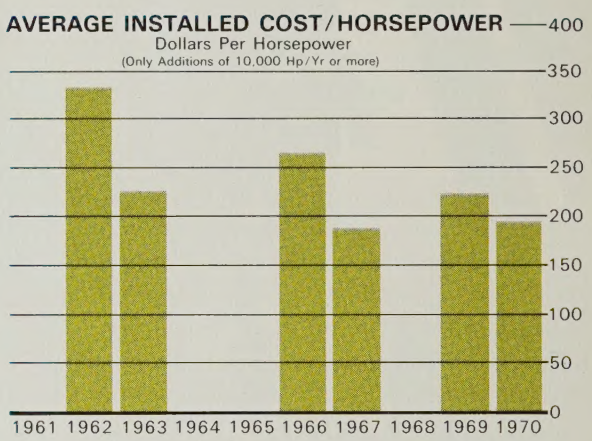
One noteworthy feature of the 1970 program was the addition of 9 miles of 20-inch line to the system connecting the Plains and Foothills divisions at Waterton. This facility transfers gas between divisions in either direction, making the Company's services more flexible.

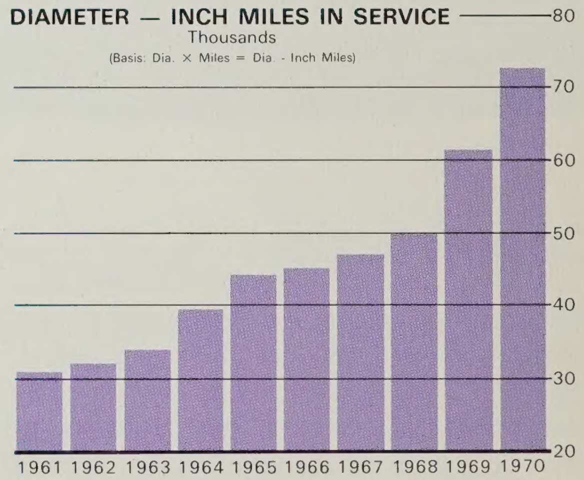
More than one-quarter of the new main line pipe mileage, 125 miles, was 42-inch diameter. Another 108 miles of 42-inch looping is planned for 1971 and this figure could be increased if Consolidated Natural Gas Limited commences to use the Company's system during the year.

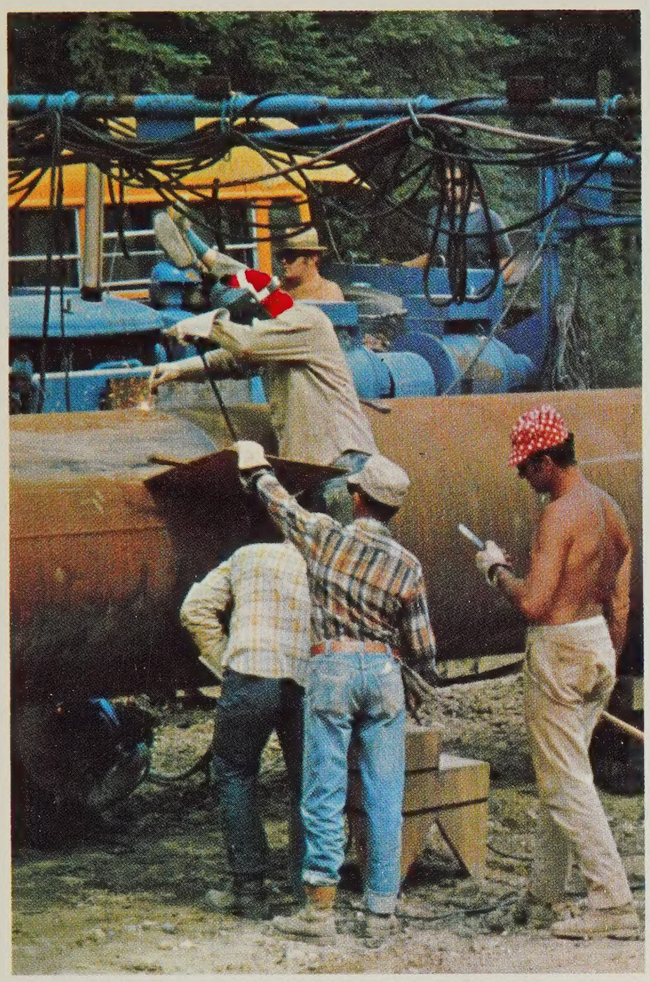
The 1971 construction program calls for the addition to this of 14 miles of 30-inch main line looping and 136 miles of smaller loops and laterals including a 67-mile extension in the Grande Prairie area, 36 inches in diameter. Should Consolidated Natural Gas Limited receive all of the approvals it is seeking, another 200 miles of pipeline could be added to this program.

Construction of gas pipeline plant in 1971 had been tentatively estimated, in December of 1970, to require capital expenditure in 1971 of $111 million. This would include the costs of all facilities which would be required if all of the removal and export authorizations applied for by the Company's customers were to be received by them in time to permit construction during the year. If this does not occur, the expenditures on plant will likely be of the order of $70 million, and the balance will be added to the 1972 program.







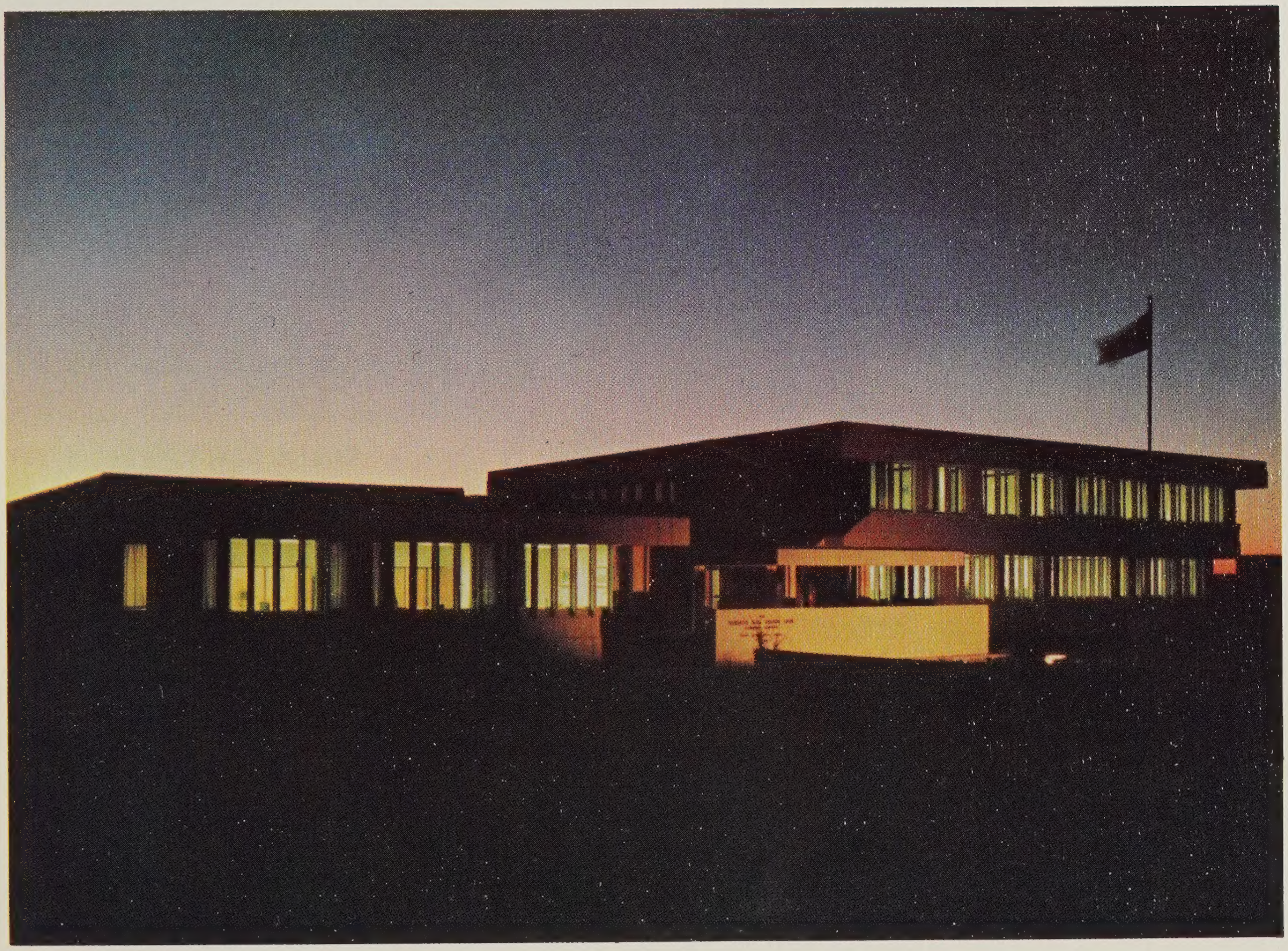


Operations

Gas Throughput

An all time maximum calendar day throughput for the Company was reached on December 31, 1970 when 4,337 million cubic feet of gas was transported. In the previous year, the highest daily throughput was 3,650 million cubic feet, which was reached on December 24, 1969. The total volume transported during the year 1970 was 1,259,337 million cubic feet, or a daily average of 3,450 million cubic feet, which compared with the 1969 figures of 1,047,780 million cubic feet for the year and 2,870 million cubic feet per day. This represented an increase of 20%, the second successive increase of that magnitude.

Welding a pipe joint on the 1970 program of 42" line installation



The Company's Calgary Service Centre

Average Distance Gas Moved

The adjacent bar chart shows the general trend of increasing average distance of gas movement by the Company. There was a particularly noticeable increase in this respect in 1970. The general trend in the development of additional gas supplies in Alberta appears to be continuing toward the west and the north, suggesting further increases in the average distance of gas transport for the Company.

Unit Costs of Gas Transport Services

The adjacent bar chart shows the average cost of transport services performed by the Company for 1961 - 1970 expressed in cents per Mcf of gas. These charges cover all of the Company's services, including quantity measurement, quality measurement and control, gathering through small laterals and transmission to delivery points through main line systems. The cents per Mcf figures are affected directly by the distance over which the gas is moved.

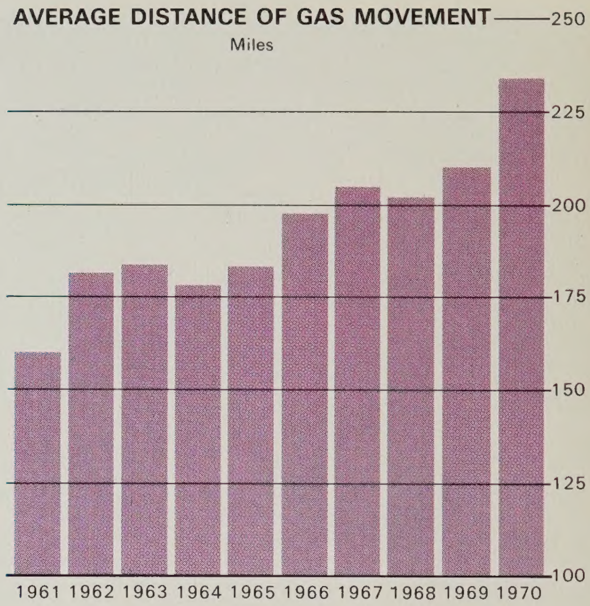
In order to adjust for the transport distance factor in examining unit costs, the adjacent bar chart shows the corresponding unit gas handling and transporting charges for 1961 - 1970, calculated in cents per Mcf transported each 100 miles.

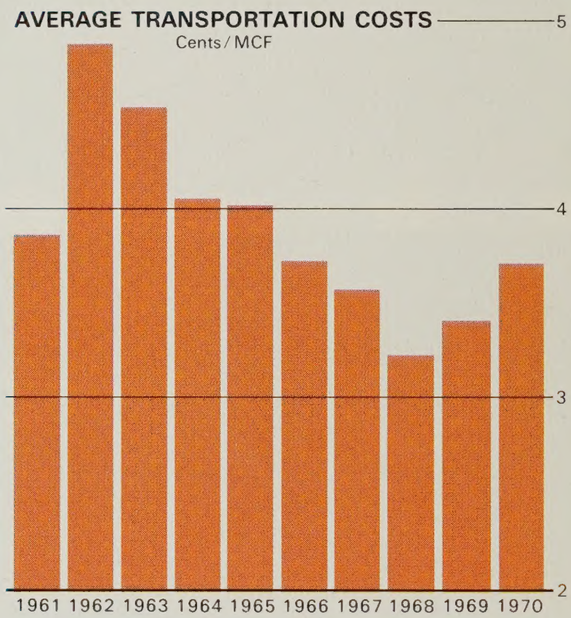
The operating division has acted during the period shown to achieve automation of measurement and quality control equipment by the installation of computer controlled supervisory systems and the remote control of eleven compressor stations and sixty meter stations. This has produced operating savings. The Company has been relatively advanced in the industry in seeking out and effectively applying such new technology.

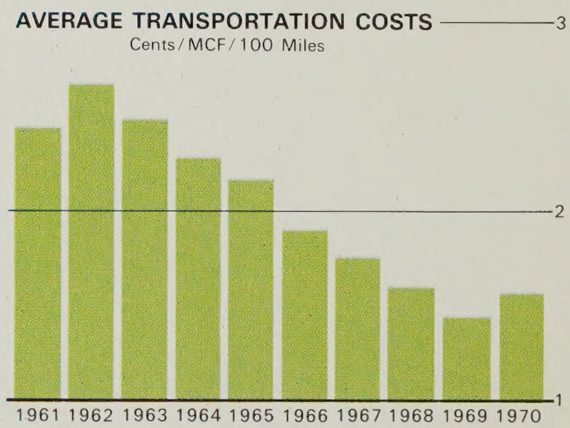
The operating division has also periodically reviewed the organization and distribution of its personnel, and has reorganized so as to minimize growth of its labor force.

All of these economies have been reflected directly in minimizing charges to the Company's customers.

Within the industry, the Company believes that its costs of service for mainline gas transmission are somewhat lower than the corresponding unit costs of contemporary gas transmission companies.







B.C.
SASK.
Westcoast
ansmission
Co. Ltd.
FORT MCMURRAY
A L B E R T A
Lesser Slave Lake
Marten Hills
GRANDE PRAIRIE
Gold Creek
Flat Lake
Kaybob
Judy Creek
Simonette
Bigstone
Whitecourt
West
Whitecourt
Edson
EDMONTON
Brazeau River
Buck Lake
Rimbey
TransCanada
RED DEER
Nevis
Strachan
Saskatchewan
Power Corp.
Wimborne
Burnt Timber
Morrin-Ghostpine
Cessford
SYSTEM MAP
CALGARY
PIPELINE SIZE
PRIOR TO 1970
1970 EXPANSION
42″
30″ - 36″
20″ - 26″
18″ & UNDER
Quirk Creek
TransCanada
PipeLines
Limited
Medicine Hat
Roseglen
MEDICINE HAT
COMPRESSOR UNIT
MAJOR GAS PLANTS
Strachan
Alberta Natural
Gas Company
LETHBRIDGE
50
0
50
100
MILES
Waterton
CANADA

Gas Arctic Systems

While a record expansion of Alberta services claimed extra energy and attention throughout 1970 it was necessary also to devote time and expenditure toward areas of future expansion of interest, which were foreseen during 1969. These were concentrated in 1970 upon the prospect of participation in a major gas pipeline from Alaska.

During the first half of the year, the necessary preliminary assessment of this prospect was completed, and in June the Company announced its commitment to a project for early completion of an Arctic pipeline connection which has since been named the Gas Arctic Project. The Project is now being studied and advanced by the Gas Arctic Systems Study Group which presently consists of the Company, Canadian National Railway Company and three United States gas transmission companies. These U.S. firms are The Columbia Gas System,Inc., Northern Natural Gas Company and Texas Eastern Transmission Corporation.

Of the Study Group members, the CN and the Company have agreed to join in co-sponsorship of the Project, with provision for bringing in other Canadian corporations in the future. The Company is Manager of this sponsorship undertaking.

CN has been in the Canadian north for many years, both in telecommunications and as the operator of rail lines. CN's capability in the engineering and economics of transportation generally is valued highly by the other members.

The Columbia Gas System, Inc., based in Wilmington, Delaware, is the largest interconnected natural gas system in the United States and is composed of subsidiary companies engaged in natural gas production, storage, transmission and distribution.

Northern Natural Gas Company has its headquarters in Omaha, Nebraska, and operates a 26,000 mile system serving 1100 communities in the northern plains of the U.S.

Texas Eastern Transmission Corporation of Houston, Texas, is a major supplier of energy throughout the U.S. The company is interested in pipelining, the retail marketing of propane and exploration and production activities in the U.S., Canada and overseas.

The basic objective of the Gas Arctic Project is a three-company pipeline system linking the gas reserves of Prudhoe Bay, Alaska, plus those to be developed in Canada's western Arctic and sub-Arctic, with existing transmission and distribution systems in Canada and the U.S. The proposal calls for transmission of the gas from Prudhoe Bay to the Yukon-Alaska boundary by a U.S. pipeline company. This segment would be 300 miles in length. At the Yukon boundary the gas would enter the main line of a new Canadian company for shipment to the northern border of Alberta, another 900 miles. Our Company may retain a minority interest in this new company, which is to be of predominantly Canadian ownership and is to serve as a marketing artery for new gas developed in northern Canada as well as to provide transport service for Alaska gas. The gas would then enter the Company's system via a 350 mile extension to the existing mainlines. The Company would transport it to the eastern, western and southern borders of the Province of Alberta for delivery into other systems connecting to the ultimate markets across the United States and Canada.

The Gas Arctic Project is intended to provide gas transport service for all shippers, first come first served.

In the development of the Project the Study Group has initiated a number of investigations into the engineering and economics of the proposed line, together with an assessment of the possible environmental effects. As part of the engineering research several millions of dollars are being spent on test facilities at Prudhoe Bay, Alaska, Norman Wells, N.W.T., and Rocky Mountain House, Alberta. The engineering research program also includes intensive soil testing along the route, system design, construction techniques, route location, etc.

Much of the engineering work has been assigned to a new consortium of Canadian engineering firms called Pipeline Engineering and Management Services of Canada (PEMCAN). This group brings together the talents and experience of seven Canadian firms, which have done the major portion of engineering in the Canadian Arctic to date.

Recognizing the developers' responsibility in the key areas of environment and ecology, the


King Christian Gas Discovery
Drake Point Gas Discovery
Prudhoe Bay
ARCTIC OCEAN
Melville Island
Beaufort Sea
BANKS ISLAND
ALASKA
VICTORIA ISLAND
Inuvik
U.S.A.
CANADA
Coppermine
YUKON TERRITORY
Norman Wells
Great Bear Lake
Mackenzie River
NORTHWEST TERRITORIES
Whitehorse
Yellowknife
Great Slave Lake
Fort Nelson
Lake Athabasca
ALBERTA
MANITOBA
Fort St. John
B.C. and Pacific Northwest Markets
Reindeer Lake
Grande Prairie
SASKATCHEWAN
BRITISH COLUMBIA
EDMONTON
Lake Winnipeg
PACIFIC OCEAN
VANCOUVER
CALGARY
VICTORIA
Central and Eastern Canada — Midwest and Eastern U.S. Markets
Lethbridge
REGINA
WINNIPEG
California and Pacific Northwest Markets
CANADA
U.S.A.
Montana Markets
NORTH DAKOTA
MONTANA
100 0 100 200 300
MILES
GAS ARCTIC PROJECT
ALASKA SECTION
YUKON/NORTHWEST TERRITORIES SECTION
NORTHWARD EXTENSION OF A.G.T.L. SYSTEM
EXISTING A.G.T.L. SYSTEM

Study Group has become the sponsor of an autonomous Environment Protection Board, composed of eminent Canadian scientists, whose assignment is to study the effects of a pipeline on soils and wildlife. The Board's findings are to be made public.

Other developments already under way which are directly related to the Gas Arctic Project include a study of the possibilities for gas storage in Alberta. Also, late in the year arrangements were completed for the training of 16 young Northerners as pipeline technicians. This three-year program is now under way, using the Company's facilities in and near Rocky Mountain House.

While the principal attention in 1970 was concentrated on the Prudhoe-to-Alberta Gas Arctic Project, the Gas Arctic Systems Study Group has also begun engineering investigations on the future pipeline connection of other Arctic gas supply, including supply of gas from Canada's Arctic islands.

Looking southeast up a pass through Alaska's Brooks Range at mile 1410 of the proposed Arctic pipeline connection

Inuvik, focus of petroleum exploration in the Canadian Arctic, with the Sir Alexander Mackenzie school as a backdrop for the Roman Catholic Church

Three young Northerners settling into their trailer home at Rocky Mountain House as the Company's northern training program gets under way

Financial

(Corresponding figures for 1969 shown in parentheses)

Operating revenues for the year were $46,247,000 ($31,930,000) and the operating profit or annual return of $24,748,000 ($17,004,000) was earned on an average rate base of $295,070,000 ($212,550,000).

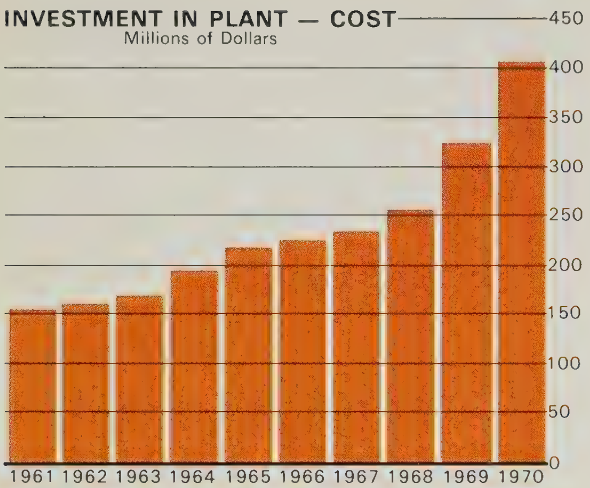
Net income for the year was $10,817,000 ($9,820,000) before providing $2,143,000 ($2,280,000) for preferred dividends. Net income applicable to common shares was $8,674,000 ($7,540,000). Net income per common share was $2.60 ($2.47) on average shares outstanding. Dividends totalling $1.50 ($1.50) per common share were paid. Included in net income is a gain of $504,000 ($349,000) realized on the purchase in the market of First Mortgage Bonds and Secured Debentures for sinking fund purposes.

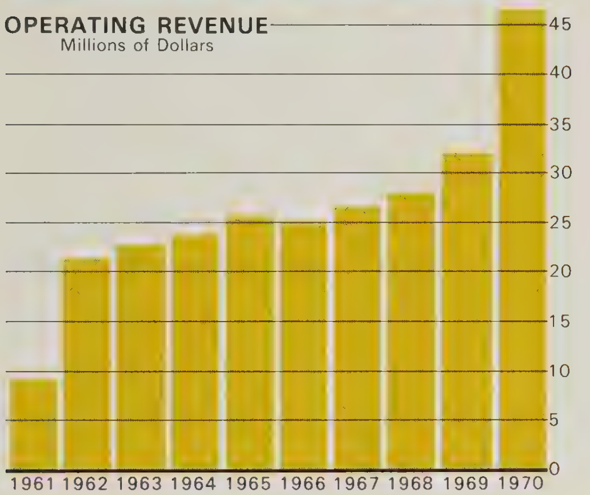
During the year the Company continued to obtain some funds in the money market by issuing short term notes, the total of which reached, on occasion, a maximum of $30 million.

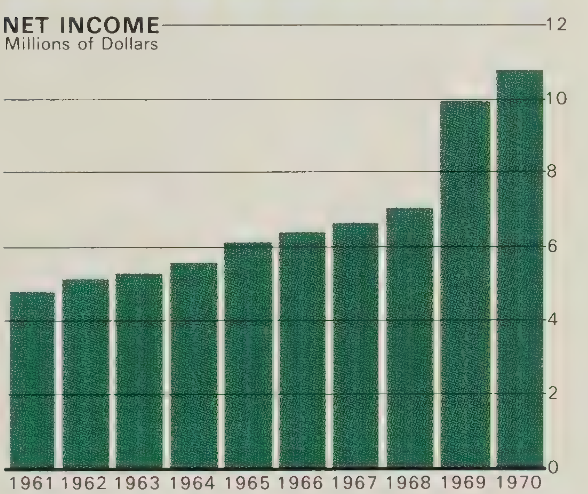
Long term funds were obtained in four separate issues: $35 million of 7½% Convertible Sinking Fund Debentures, Series 1; $45 million of 8¾% First Mortgage Sinking Fund Bonds, Series D, payable in United States funds and providing $48 million Canadian when converted; $20 million of 9¾% Sinking Fund Debentures, Series 2; and $18 million 9¼% Sinking Fund Debentures, Series 3.

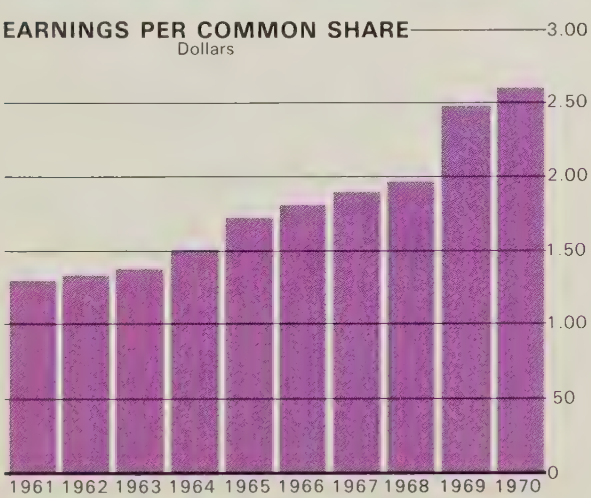
These new debt securities have increased the average interest rate on the Company's long term debt from 6.9% to 7.5% in 1970. It will probably be necessary to proceed with further long term financing during 1971.

The transportation contracts with the Company's customers, Trans-Canada Pipe Lines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited and Westcoast Transmission Company (Alberta) Ltd., provide that the Company will be paid transportation charges on a cost of service basis which includes the Company's operating expenses, income and other taxes and depreciation of its pipeline and plant facilities, together with an annual return on the rate base, which is composed of the depreciated









investment in plant and an allowance for working capital. Small volumes of gas are transported for other customers on a tariff basis. Financing costs, interest on debt and dividends on preferred and common shares are payable from the annual return.

On October 20, 1970, a new service agreement was entered into with Consolidated Natural Gas Limited, which company has received permits from the Oil and Gas Conservation Board of Alberta to export 2.531 trillion cubic feet of gas over a twenty-five year period. Consolidated was unsuccessful before the National Energy Board of Canada in that Board's decision of September, 1970, which denied a permit to export this gas to the United States. A new application is now before the National Energy Board. Terms of the new service agreement are substantially the same as those in existing contracts with other customers.

Effective July 1, 1970, the Company established new rates of return for transportation services, with the result that the Company earned 8% on the total rate base from January 1 to June 30, and 8.75% from July 1 to December 31.

As discussed in the Report to Shareholders, the increase in the rate of return which was applied by the Company on July 1, 1970, has been the subject of complaints by other companies to the Public Utilities Board of the Province of Alberta, which will vary or confirm the rate.

Included in the total revenue for the year 1970 is $1,242,000 which was contributed during the latter half of the year by the increase in the rate of return. The Company and its customers have agreed that if the rate of 8.75% is varied by the Public Utilities Board there will be an appropriate adjustment in the charges to customers, with interest applied retroactively to the date of the increase, but not longer than one year.

In view of the high level of debt cost, the Company is again, in 1971, reviewing the rate of return which is included in its service charges.

The Company is concerned with the prospective effect of certain proposals of the federal government for tax reform, on the Company and its shareholders, on its transportation charges and on the national economy.

Of special concern is the proposed integration of corporate and personal income taxes. It is encouraging to note that the Standing Senate Committee on Banking, Trade and Commerce has completely rejected the integration proposal contained in the White Paper Proposals for Tax Reform and recommended the retention of the present dividend tax credit system, with some modification. The House of Commons Standing Committee on Finance, Trade and Economic Affairs however, has recommended that the tax levied on the taxable income of widely held companies should be eligible for 50% integration. The Company has participated in industry submissions to these committees, and supports the retention of some form of the present dividend tax credit arrangement whereby the dividends paid are eligible for credit although the Company is not yet paying taxes due to its fast growth in the development period of natural resources and energy supply services, and consequent high amortization of capital costs in a capital intensive industry. The Minister of Finance has indicated that tax reform legislation will be introduced in Parliament in 1971.

At the end of the year under review, the Company had 21,736 shareholders who owned 3,372,232 Class "A" common shares. Of these 21,114 or 97% were resident in Canada and held 3,286,265 shares, being 97% of the total.

On December 16, 1970, the Company's Class "A" common shares were listed and called for trading on the Montreal Stock Exchange.

1,771 Class "B" voting shares were outstanding, no change from the previous year. These shares are owned by 102 shareholders.

416,066 preferred shares were outstanding at the year end and were owned by 10,385 shareholders. Of these, 10,324 were Canadian residents holding 414,957 shares, being 99% of that total.

The decrease in outstanding preferred shares is due to the conversion of 17,763 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, and the purchase and cancellation of 11,649 4¾% Cumulative Redeemable Preferred Shares Series C, in accordance with the Purchase Fund provisions attaching to these preferred shares.

Auditors' Report

TO THE SHAREHOLDERS OF
THE ALBERTA GAS TRUNK LINE COMPANY LIMITED.

We have examined the balance sheet of The Alberta Gas Trunk Line Company Limited as at December 31, 1970 and the statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result if the rate of return used in determining transportation charges for the period from July 1 to December 31, 1970 is varied as mentioned in Note 2, these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 16, 1971.

Clarkson, Gordon & Co.
Chartered Accountants

Statement of Income

	Year ended December 31 1970	1969
Operating revenue:		
Transportation of gas (Notes 1 and 2)	$46,247,000	$31,930,000
Operating revenue deductions:		
Operating and maintenance expenses	10,886,000	6,783,000
Depreciation (Note 1)	8,090,000	6,211,000
Taxes - property	2,523,000	1,932,000
	21,499,000	14,926,000
Operating profit	24,748,000	17,004,000
Other income:		
Interest on short term deposits	736,000	164,000
Gain on redemption of long term debt	504,000	349,000
	25,988,000	17,517,000
Income deductions:		
Interest on long term debt	15,073,000	7,654,000
Other interest	1,075,000	1,806,000
Amortization of debt discount and expense	320,000	243,000
Interest charged to construction (credit)	(1,297,000)	(2,006,000)
	15,171,000	7,697,000
Net income for the year (Notes 1, 2 and 6)	$10,817,000	$ 9,820,000
Earnings per common share (Notes 2 and 7)	$2.60	$2.47

Statement of Retained Earnings

	Year ended December 31 1970	1969
Balance at beginning of year	$18,187,000	$15,548,000
Add net income for the year	10,817,000	9,820,000
	29,004,000	25,368,000
Less dividends paid or payable		
Preferred shares	2,143,000	2,280,000
Common shares	5,028,000	4,901,000
	7,171,000	7,181,000
Balance at end of year	$21,833,000	$18,187,000

See accompanying notes to financial statements.

The
Alberta Gas Trunk Line
Company Limited

Balance Sheet

Assets

	December 31 1970	December 31 1969
Plant, Property and Equipment - at cost (Note 1):		
Gas plant in service (land, buildings, gas transmission system equipment, motor vehicles etc.)	$401,209,000	$315,099,000
Less accumulated depreciation	55,619,000	46,996,000
	345,590,000	268,103,000
Gas plant under construction	2,843,000	6,512,000
	348,433,000	274,615,000
Current Assets:		
Cash and short term deposits	2,666,000	4,655,000
Accounts receivable	5,559,000	3,092,000
Materials and supplies at cost	2,547,000	1,773,000
Prepaid expenses	94,000	281,000
	10,866,000	9,801,000
Other:		
Sundry investments and advances	239,000	
Special refundable tax		400,000
Unamortized debt discount and expense	4,327,000	2,205,000
	4,566,000	2,605,000
	$363,865,000	$287,021,000

On behalf of the Board:

Director.

Director.

See accompanying notes to financial statements.

Liabilities

	December 31 1970	1969
Shareholders' Equity:		
Capital (Note 3)		
Authorized -		
2,000,000 Preferred Shares of the par value of $100 each with no voting rights attached (1969 - 1,000,000 shares)		
8,000,000 Class "A" common shares of the par value of $5 each with no voting rights attached.		
2,002 Class "B" common shares of the par value of $5 each with voting rights attached.		
Issued for cash and fully paid -		
242,546 4¾% Cumulative Redeemable Preferred Shares Series C 1969 - 254,195 shares	$ 24,255,000	$ 25,420,000
173,520 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D 1969 - 191,283 shares	17,352,000	19,128,000
3,372,232 Class "A" common shares 1969 - 3,322,350 shares	16,861,000	16,612,000
1,771 Class "B" common shares	9,000	9,000
	58,477,000	61,169,000
Contributed surplus	16,463,000	14,620,000
Retained earnings	21,833,000	18,187,000
	96,773,000	93,976,000
Long Term Debt (Note 4)	251,316,000	136,035,000
Bank Loans and Short Term Notes (Note 5)		40,945,000
Special Refundable Tax Payable To Shippers		400,000
Current Liabilities:		
Accounts payable	3,560,000	6,331,000
Dividends payable February 15	1,788,000	1,805,000
Interest accrued on long term debt	4,478,000	1,882,000
Sinking fund instalments due within one year	5,950,000	5,647,000
	15,776,000	15,665,000
	$363,865,000	$287,021,000

The
Alberta Gas Trunk Line
Company Limited

Statement of Source and Application of Funds

	Year ended December 31	
	1970	1969
Source of funds:		
Funds provided from internal sources		
Net income for the year	$ 10,817,000	$ 9,820,000
Charges against income not requiring an outlay of cash		
Depreciation	8,090,000	6,211,000
Amortization of debt discount and expense	320,000	243,000
Received under settlement agreements	949,000	1,579,000
	20,176,000	17,853,000
New money provided		
Common shares		12,976,000
First mortgage bonds	48,237,000	16,158,000
Sinking fund debentures	73,000,000	
Increase (decrease) in bank loans and short term notes	(40,945,000)	34,445,000
	100,468,000	81,432,000
Application of funds:		
Dividends		
Preferred shares	2,143,000	2,280,000
Common shares	5,028,000	4,901,000
	7,171,000	7,181,000
Additions to plant, property and equipment	82,857,000	68,251,000
Long term debt included in current liabilities	5,950,000	5,647,000
Redemption of preferred shares Series C	825,000	825,000
Cost of issuing securities	2,442,000	313,000
Investments and advances, etc.	269,000	
	99,514,000	82,217,000
Change in working capital (decrease)	954,000	(785,000)
Working capital (deficiency) at beginning of year	(5,864,000)	(5,079,000)
Working capital (deficiency) at end of year	$ (4,910,000)	$ (5,864,000)

Statement of Contributed Surplus

	Year ended December 31	
	1970	1969
Balance at beginning of year	$14,620,000	$ 3,924,000
Premium on issue of capital stock (Note 3)	1,533,000	11,563,000
Gain on purchase for cancellation of preferred shares Series C (Note 3)	340,000	230,000
Capital stock issue and organization expenses written off	(30,000)	(1,097,000)
Balance at end of year	$16,463,000	$14,620,000

See accompanying notes to financial statements.

Notes to Financial Statements

DECEMBER 31, 1970

1. Plant, property and equipment

Gas plant in service consists of facilities for the transportation of gas owned by Trans-Canada Pipe Lines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd. and others.

The transportation contracts with the above named owners provide that the Company will be paid transportation charges on a cost of service basis which includes operating expenses, income and other taxes (see Note 6) and depreciation of its facilities together with an annual return on its investment (see Note 2). Depreciation of gas plant in service has been provided in an amount equal to depreciation included in the transportation charges, mainly 2½% per annum on a straight line basis.

The cost of constructing additional facilities under the above contracts during 1971 is estimated at $70,000,000.

2. Rate of return

The Company's rate of return included in its transportation charges, initially established at 7½% per annum on its net investment rate base, was increased to an effective rate of 8% for the calendar year 1969 and to 8¾% on July 1, 1970. Complaints against the latter increase have been filed by the owners named above and other interested parties with the Public Utilities Board of Alberta which has conducted a hearing and will vary or confirm the rate. The Company and the owners have agreed that if the Board varies the rate, the Company's transportation charges will be adjusted with interest retroactively. Net income for the year ended December 31, 1970 was increased by $1,242,000 (37¢ per share) as a result of the increase in rate of return to 8¾%.

3. Capital

49,732 Class "A" common shares were issued during the year on the conversion of 17,763 5⅜% Preferred Shares Series D and 150 shares were issued on the conversion of $6,000 principal amount of 7½% Sinking Fund Debentures, Series 1. Of the total consideration received $249,000 was credited to share capital and $1,533,000 to contributed surplus.

The Company is required to set aside on its books as a Purchase Fund $825,000 annually (or such lesser amount as would increase the fund to a maximum of $1,650,000) for the purchase for cancellation of its 4¾% Cumulative Redeemable Preferred Shares Series C, if and when available, at a price not in excess of the par value and costs of purchase, or for the redemption thereof. $1,165,000 par value Preferred Shares Series C were purchased for cancellation at a cost of $825,000 during 1970. The gain of $340,000 has been credited to contributed surplus. The Preferred Shares Series C are redeemable at $104 per share on or before May 15, 1975 and thereafter at reducing amounts.

Commencing January 2, 1971, the Company is required to set aside on its books as a Purchase Fund $600,000 annually (or, commencing in 1973, such lesser amount as would increase the fund to a maximum of $1,200,000) for the purchase for cancellation of its 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, if and when available, at a price not in excess of the par value and costs of purchase, or for the redemption thereof. The Preferred Shares Series D are redeemable at $106 per share on or before May 15, 1980 and thereafter at reducing amounts.

1,419,606 Class "A" common shares were reserved at December 31, 1970 as follows:

	Shares
For conversion of the 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D until July 15, 1980 on an initial conversion basis of 2.80 Class "A" common shares for each preferred share converted	485,856
For conversion of the 7½% Convertible Sinking Fund Debentures, Series 1 until July 15, 1982 on an initial conversion basis of 25 common shares for each $1,000 principal amount of Series 1 Debentures	874,850
Under an Incentive Stock Option Plan	48,900
Options were granted on February 13, 1970 to officers and employees to purchase an aggregate of 10,500 shares at a price of $36.50 per share, exercisable in three annual instalments on a cumulative basis commencing February 13, 1972 and expiring on February 12, 1975.	
38,400 shares remain reserved under the Plan but unallocated.	
For the exercise of an option granted to an officer of the Company to purchase shares at a price of $40 per share, exercisable to a maximum of 2,000 shares annually on a cumulative basis from January 1, 1971 and expiring on December 31, 1980	10,000
	1,419,606

4. **Long term debt**

Details of the Company's long term debt are as follows:

	Maturity	1970	1969
First Mortgage Bonds			
5¼% Series A	1981	$ 20,157,000	$ 21,487,000
5¾% Series B (1970 - $47,011,000 U.S. 1969 - $49,979,000 U.S.)	1981	47,011,000	49,979,000
5½% Series C	1985	16,048,000	16,711,000
8¾% Series D (1970 - $60,000,000 U.S. 1969 - $15,000,000 U.S.)	1989	64,395,000	16,158,000
Secured Debentures			
6½% Series A	1981	13,134,000	13,422,000
5¾% Series B	1985	23,527,000	23,925,000
Unsecured Debentures			
7½% Series 1 (Convertible)	1990	34,994,000	
9¾% Series 2	1990	20,000,000	
9¼% Series 3	1990	18,000,000	
		257,266,000	141,682,000
Less sinking fund instalments due within one year shown as current liability		5,950,000	5,647,000
		$251,316,000	$136,035,000

The 5¾% First Mortgage Sinking Fund Bonds, Series B are payable in United States funds. The Company will receive under its transportation contract with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited (see Note 1) sufficient United States dollars to discharge its future principal and interest payments in connection with the Series B bonds. Accordingly, the principal amount of the bonds has been, and future revenue receipts and interest payments in United States dollars will be converted to Canadian dollars on the basis that one United States dollar is equal to one Canadian dollar.

Trans-Canada Pipe Lines Limited and Alberta and Southern Gas Co. Ltd. have agreed that losses or gains experienced by the Company in purchasing United States dollars to meet principal and interest payments of the First Mortgage Bonds, Series D at rates above or below the rates at which the entire issue was converted into Canadian dollars will be for their account.

Sinking fund requirements in respect of long term debt for the years 1972 to 1975 are: 1972—$8,337,000; 1973—$8,817,000; 1974—$9,426,000; 1975—$9,936,000.

5. Bank loans and short term notes

Bank loans and short term notes have been classified as current liabilities in previous years. Because short term borrowings are customarily repaid from the proceeds of long term financing, the Company has adopted the policy of including in current liabilities only those borrowings for which financing arrangements have not been completed. Financing arrangements were completed at December 31, 1969 for the repayment of bank loans and short term notes outstanding at that date and accordingly, the 1969 accounts have been restated.

6. Income taxes

For income tax purposes the Company claims capital cost allowances and other deductions in excess of the related amounts charged against income in the accounts; thus no income taxes have been paid since inception of the Company (except for $7,350 in respect of 1966) and no liability for income taxes exists at December 31, 1970. Accordingly under the taxes payable basis of accounting followed by the Company no provision for income taxes has been recorded in the accounts. This accounting treatment differs from the tax allocation basis under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in current and prior years the cumulative amount of deferred tax credits would have been approximately $37,000,000 to December 31, 1970. The method used by the Company is acceptable in the circumstances since income taxes associated with the Company's operations under its transportation contracts are a component of the transportation charges (see Note 1) and will be included in such charges in subsequent periods. The deferral of income taxes has no effect on the Company's earnings for the year.

7. Earnings per share

Earnings per common share has been calculated using the weighted monthly average number of shares outstanding during the year.

Fully diluted earnings per common share for the years ended December 31, 1970 and 1969 are $2.50 and $2.39 respectively, and are based on the assumption that all of the 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D outstanding at the end of the respective periods had been converted into common shares at the beginning of the period. Fully diluted earnings per share have been calculated by increasing the net income attributable to the common shares by the dividends paid on the Preferred Shares Series D and the number of common shares outstanding have been adjusted to reflect the additional common shares that would have been issued on conversion. The conversion of the 7½% Convertible Sinking Fund Debentures, Series 1 has been excluded from the calculation of fully diluted earnings per share as the inclusion would result in an increase in such earnings per share.

8. Remuneration of directors and senior officers

The aggregate direct remuneration paid to directors and senior officers during the year amounted to $253,000 (1969—$202,000).

The
Alberta Gas Trunk Line
Company Limited

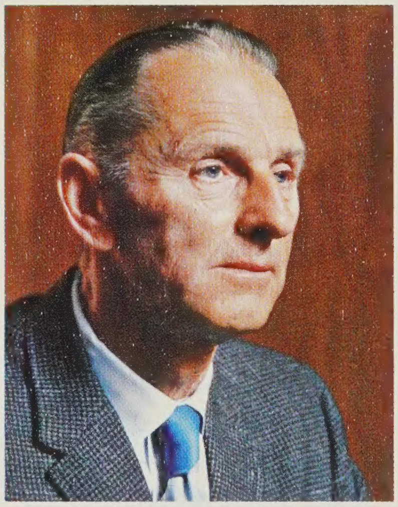
Ten Year Review

		1970	1969
FINANCIAL (in thousands of dollars except per share amounts)	Operating revenues	$ 46,247	31,930
	Operating expenses, depreciation and taxes	$ 21,499	14,926
	Operating profit	$ 24,748	17,004
	Interest expense - net	$ 13,931	7,184
	Net income	$ 10,817	9,820
	Dividends on preferred shares	$ 2,143	2,280
	Net income applicable to common shares	$ 8,674	7,540
	Net income per common share		
	On average shares outstanding	$ 2.60	2.47
	On fully diluted basis	$ 2.50	2.39
	Dividends paid per common share	$ 1.50	1.50
	Average common shares outstanding during year (thousands)	3,342	3,056
	Working capital (deficiency)	$ (4,910)	(5,864)
	Additions to plant, property and equipment	$ 82,857	68,251
	Investment in plant, property and equipment (cost)	$404,052	321,611
	Investment in plant, property and equipment (net)	$348,433	274,615
	Bank loans and short term notes		$ 40,945
	Long term debt (less due within one year)	$251,316	136,035
	Shareholders' equity		
	Preferred shares	$ 41,607	44,548
	Common share equity	$ 55,166	49,428
STATISTICAL	Shareholders and employees		
	Number of preferred shareholders	10,385	10,781
	Number of common shareholders	21,838	22,543
	Number of employees	577	442
OPERATING	Miles of pipeline in service	3,246	2,778
	Compression BHP	280,555	186,630
	Annual throughput (MMcf)	1,259,337	1,047,780
	Maximum day throughput (MMcf)	4,337	3,650

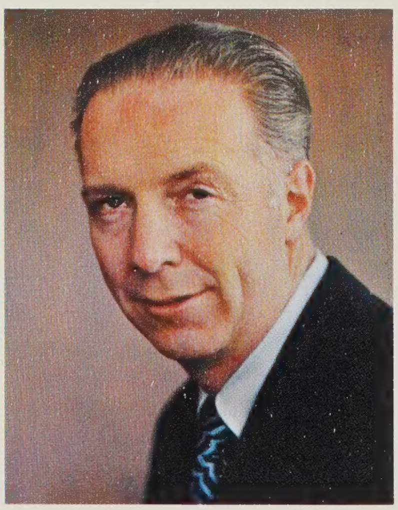
1968	1967	1966	1965	1964	1963	1962	1961
27,929	26,309	24,976	25,511	23,417	22,467	21,015	8,972
13,087	12,037	10,823	12,354	11,440	11,077	9,800	2,684
14,842	14,272	14,153	13,157	11,977	11,390	11,215	6,288
7,892	7,692	7,815	7,106	6,404	6,187	6,157	1,523
6,950	6,580	6,338	6,051	5,573	5,203	5,058	4,765
1,495	1,306	1,306	1,397	1,512	1,513	1,513	1,314
5,455	5,274	5,032	4,654	4,061	3,690	3,545	3,451
1.95	1.88	1.80	1.71	1.50	1.36	1.31	1.28
1.41	1.23	1.20	1.15	1.00	1.00	0.25	
2,802	2,800	2,792	2,720	2,715	2,710	2,705	2,702
(5,078)	(3,570)	(2,637)	1,897	(1,807)	(655)	727	4,176
23,132	11,309	7,703	23,521	25,845	8,379	8,220	66,242
54,046	231,155	223,833	216,319	192,896	167,018	158,731	150,571
14,154	197,030	191,443	189,351	173,207	154,115	152,143	149,871
6,500	7,800			22,700	2,700		
25,524	130,884	135,973	140,802	101,028	104,566	107,926	111,116
46,475	27,500	27,500	27,500	25,000	25,000	25,000	25,000
33,808	30,420	28,638	26,413	25,810	24,446	23,326	21,434
11,087	3,172	3,254	3,214	8,457	8,805	9,304	9,520
23,452	24,833	26,007	26,782	28,251	29,718	30,213	31,048
322	301	290	278	290	294	267	256
2,198	2,094	2,003	1,945	1,765	1,560	1,492	1,435
55,620	55,620	40,395	24,895	24,895	22,865	10,200	
73,254	740,905	678,180	636,876	578,773	496,528	430,331	235,422
3,094	2,757	2,242	2,058	1,993	1,749	1,451	1,154

Board of Directors

JOHN C. MAYNE
Company Director



ALBERT T. BAKER
President
Glenbow Alberta Institute



DAVID E. MITCHELL
President
Great Plains Development Company of Canada, Ltd.

JOHN E. MAYBIN
Chairman and Chief Executive Officer
Canadian Western Natural Gas Company Limited,
Northwestern Utilities, Limited,
Canadian Utilities, Limited and
Northland Utilities, Limited

J. EDWARD BAUGH
Vice-President and General Manager
Canadian Fina Oil Limited

THE HON. ERNEST C. MANNING, P.C., C.C.
President
M. & M. Systems Research Ltd.

L. MERRILL RASMUSSEN
President
Pacific Petroleums Ltd.

ALCRAFT • CALGARY

Senior Officers and Managers

The
Alberta Gas Trunk Line
Company Limited

JOHN C. MAYNE
Chairman of the Board

S. ROBERT BLAIR
President and Chief Executive Officer

ALBERT T. BAKER
Vice-President

JOHN M. BALLACHEY
Vice-President and Secretary

WALTER J. HOPSON
Vice-President and Treasurer

D. HOWARD HUSHION
Vice-President

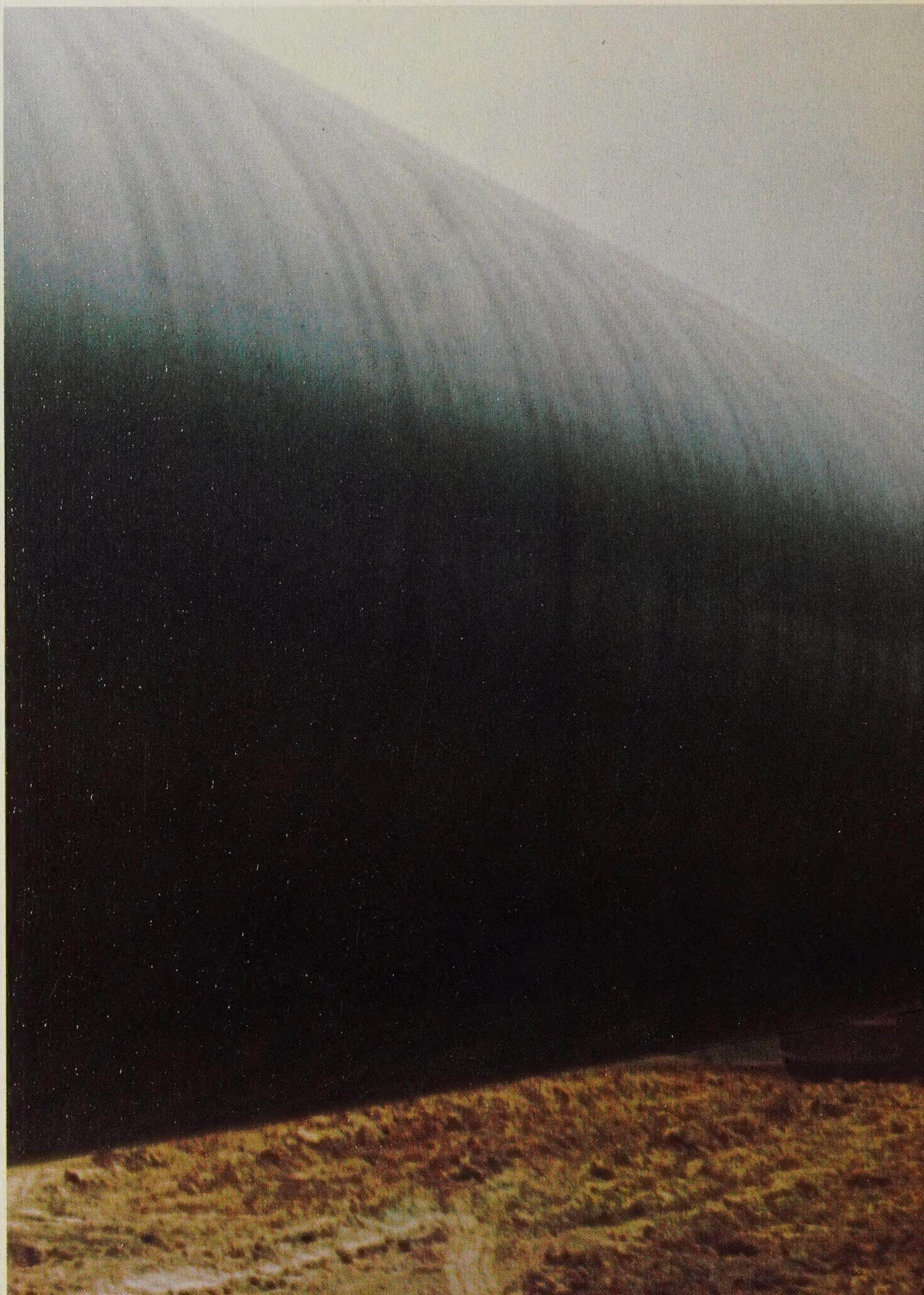
GORDON W. WALKER
Vice-President

WILLIAM J. DEYELL
Manager of Operations

ROBIN J. ABERCROMBIE
Manager, Special Studies

F. A. RICHARD McKINNON
Assistant Treasurer

ADRIAN SMITH
Comptroller



CONSTRUCTION SCENE

Canada's largest natural gas pipeline — 42" pipeline construction on the Foothills Division main line.

Annual Report 1970

The Alberta Gas Trunk Line Company Limited